GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3192
ANSWERED ON:12.05.2006
AUDIT OF MARKET INTERMEDIARIES
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Will the Minister of FINANCE be pleased to state:

(a) whether Institute of Company Secretaries of India had submitted memorandum to Securities and Exchange Board of India (SEBI) for conducting audit of Market Intermediaries;

(b) if so, the details thereof; and

(c) SEBI`s response to it and by when the audit is likely to start?

Answer

MINISTER OF THE STATE IN MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) The Securities and Exchange Board of India (SEBI) has informed that the Institute of Company Secretaries of India (ICSI) has not submitted any memorandum to SEBI. However, SEBI has received a letter from ICSI, containing suggestions which inter alia included suggestions for compliance audit of mutual funds, intermediaries and to undertake annual audit of members of stock exchanges, to be carried out by the company secretaries.

(b) On audit of market intermediaries, the ICSI has suggested as follows:

(i) there is need for introducing compliance audit of mutual funds by a practicing Company Secretary to ensure that the violation of norms, legal or otherwise as applicable to mutual funds is detected, prevented and eliminated in order to usher in a new era of good corporate governance.

(ii) to ensure compliance of all statutory requirements by intermediaries, Company Secretaries in practice should be entrusted with the task of certifying the compliance of all laws applicable to intermediaries.

(iii) qualification of Company Secretaries should also be recognized for the purposes of audit of members of stock exchanges and for giving certification on the compliance report.

(c) On the suggestion of compliance audit of intermediaries, SEBI is of the view that compliance audit is not a mandatory requirement for the intermediaries, because SEBI has mandated the appointment of a Compliance Officer for all intermediaries who are registered with SEBI. These Compliance Officers have been entrusted with the responsibility of ensuring compliance with the applicable rules, regulations on an ongoing basis. Besides, the status of compliance with SEBI rules and regulations are verified during the periodic inspections of the intermediaries. There is no requirement of an independent authority certifying compliance. Hence there is no occasion to entrust the task of compliance certification to Company Secretaries.

In regard to the suggestion of annual audit of members of stock exchanges, SEBI has mandated, through a circular, that the annual audit of accounts of active members of stock exchanges is required to be carried out by qualified Chartered Accountants. Every active member of stock exchanges is required to submit a copy of the audited annual report to the respective stock exchange. Besides, as most of the capital market intermediaries are corporate entities, they are governed by provisions of Companies Act, 1956 which too mandates annual audit of companies by Chartered Accountants only.